

Revised due to amendments adopted through April 18, 2013

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2013-14		FY 2014-15	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	See Below		See Below	
CASH FUNDS	39,325			
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	39,325			

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB553 amends the School Employees Retirement Act; the Class V School Employees Retirement Act; the Nebraska State Patrol Retirement Act and the Judges Retirement Act. LB553 incorporates all or some of the provisions of LB553, LB554, LB305 and LB306.

School Employees Retirement (LB553)

- Creates a reduced tier of retirement benefits that applies to all school employees hired on or after July 1, 2013. The reduced tier contains: final salary is averaged over 5 years instead of 3 years; the maximum COLA is 1% versus 2.5%.
- The employee contribution rate remains at 9.78%, eliminating the 2017 sunset.
- The state contribution rate is increased from 1% to 2% of total compensation beginning July 1, 2014.
- The amortization method is changed from level dollar to level percent of pay beginning July 1, 2013.
- Eligibility for membership is changed from 15 hours per week to 20.
- The sunset is stricken for the school budget and lid exclusions for expenditures above the employer contribution rate of 7.35%.

Class V School Employees Retirement Act (Omaha) (LB554)

- Creates a reduced tier of retirement benefits that applies to all Class V school employees hired on or after July 1, 2013. The reduced tier contains: final salary is averaged over 5 years instead of 3 years; the maximum COLA is 1% versus 1.5%.
- The employee contribution rate is increased from 9.3% to 9.78% beginning September 1, 2013.
- The state contribution rate is increased from 1% to 2% of total compensation beginning July 1, 2014.
- The sunset is stricken for the school budget and lid exclusions for expenditures above the employer contribution rate of 7.37%.

Nebraska State Patrol Retirement Act (LB305)

- The amortization method is changed from level dollar to level percent of pay beginning July 1, 2013.

Judges Retirement Act (LB306)

- The amortization method is changed from level dollar to level percent of pay beginning July 1, 2013.

Comparison of Costs Associated with Current Law vs. Provisions of LB553 as amended*

	13-14 Current	13-14 LB553	Difference	14-15 Current	14-15 LB553	Difference
Schools	64,966,963	16,874,535	48,092,428	77,420,000	34,255,000	43,165,000
Omaha	5,011,695	5,011,695	0	4,385,000	7,365,000	(2,980,000)
State Patrol	4,567,260	2,404,580	2,162,680	6,999,000	4,704,580	2,294,420
Judges	79,823	0	79,823	685,000	94,000	564,000
Total	74,715,741	24,290,810	50,424,931	89,462,000	46,418,580	43,043,420

*Per corresponding actuarial reports.

The above table shows a \$50.4 million cost avoidance for the State for FY2013-14 and a \$43 million cost avoidance for the State for FY14-15 as a result of the provisions of LB553 as amended.

Nebraska Public Employees Retirement System (NPERS)

NPERS estimates the administrative costs associated with LB553 as amended to be \$39,325 including the one-time cost of the actuarial reports for the school employees, State Patrol, and Judges as well as the one-time IT programming cost.

Omaha School Employees' Retirement System (OSERS)

OSERS had an actuarial cost study done as required. The cost study indicates steady then increasing funded ratio and decrease in the unfunded actuarial liability as a result of the provisions of LB553 as amended as compared to current law.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES

LB: 553	AM: 802	AGENCY/POLT. SUB: NPERS
REVIEWED BY: Gary Bush	DATE: April 17, 2013	PHONE: 471-4161

COMMENTS: Concur with agency estimate for the cost of actuarial studies and IT programming. The agency incorrectly shows an increase to other fund revenue for the additional state contributions. This amount of additional contributions is actually an increase of General Fund appropriations to the Nebraska Public Employee Retirement System in program 515. The agency will use this appropriation to pay money in the various retirement systems.

School Plans

LB553 increases the state contribution based on a percent of employee salary by 100%, from a rate of 1% to 2%, for the State School Employee Retirement System beginning in FY2014. AM805 changes the original bill by adding Class V School Employee Retirement System employee salaries when determining the state contribution and changes the start date to FY2015. Salaries are assumed by the Public Employee Retirement Board to increase by 4% per year. The General Fund impact of the increase in state contribution is projected to be \$20,421,000 in 2015, \$21,237,840 in FY2016, and \$22,087,354 in FY2017.

Current law provides for the state contribution based on a percent of employee salary to decrease from a rate of 1% to 0.7% in FY2018. AM802 eliminates this reduction and increases the state contribution rate to 2% beginning FY2015. The table below illustrates the projected impact through FY2038 using the assumption of 4% per year salary growth that the Public Employee Retirement Board adopted in September 2012.

State Percent of Salary Contribution per 79-966(2)

Fiscal Year	Current Law (a)	LB553, AM802 (b)	Increased state general fund appropriations
2014 - 2015	40,364,533	60,785,533	34,109,535
2016 - 2017	43,325,194	86,650,387	43,325,194
2018 - 2038	514,501,766	1,468,719,330	954,667,765
Total	\$504,526,845	\$1,380,926,434	\$1,018,413,758

(a) Current law sets the state percent of salary at 1% until June 30, 2017. On July 1, 2017, the state percent of salary is reduced to seven tenths of one-percent (0.7%).

(b) LB553, AM803 changes the state percent of salary from 1% to 2% on July 1, 2014.

Other Plans

Agree with the agency estimate of additional required contributions for the Nebraska State Patrol Retirement System and Judges Retirement System per the actuarial study completed on April 3, 2013.

Please complete ALL (5) blanks in the first three lines.

2013

**LB⁽¹⁾ 553
AM802 FISCAL NOTE**

State Agency OR Political Subdivision Name: ⁽²⁾ NPERS

Prepared by: ⁽³⁾ Randy Gerke Date Prepared: ⁽⁴⁾ 4/12/2013 Phone: ⁽⁵⁾ 402 471-9495

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2013-14</u>		<u>FY 2014-15</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	<u>39,325</u>	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	<u>2,300,000</u>	_____	<u>21,568,535</u>
TOTAL FUNDS	<u><u>39,325</u></u>	<u><u>2,300,000</u></u>	<u><u>_____</u></u>	<u><u>21,568,535</u></u>

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

LB553 as amended through AM802 changes the School Retirement Plan by changing the amortization of the unfunded liability from a level dollar to a level percentage of pay. The bill also adds a new tier of benefits for newly hired members. This required an actuarial study to determine the fiscal impact of this legislation. The actuary estimates the cost for this study to be \$9,000. AM802 also changes the Judges and Patrol retirement plan by changing the amortization of the unfunded liability from level dollar to level percentage of pay. This required an actuarial study for each plan costing \$4,500 and \$6,000 respectively.

NPERS also estimates that it would take 260 hours of IT programming (defining, coding and testing) to make the changes to the school plan. We have used the OCIO rate of \$76.25. The total amount for programming would be \$19,825.00. This would be a one-time cost.

LB553 also provides for the state to deposit into the School Retirement Fund, 2% of the compensation of the member school employees. Based on the current 1% of compensation effective this year this would be an additional \$16,874,535 of state contributions into the plan. This is effective beginning July 1, 2014. This would come from the state general fund into NPERS cash fund.

The amortization changes would cause the following additional contributions needed:

	2013-14	2014-15
School	0	0
Patrol	\$2,300,000	\$4,600,000
Judges	0	\$94,000

This appears in the Other Funds Revenue fields above.

MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2013-14</u>	<u>2014-15</u>
	<u>13-14</u>	<u>14-15</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....			39,325	
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....			39,325	